


MONEY


and

MONEY REFORMS

By CHRIST JELSET



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MONEY AND MONEY REFORMS

POLITICAL ECONOMY

In a debate in the English parliament over Sir Robert Peel's Bank Act of 1844, Gladstone remarked that "not even love has made so many fools of men as the pondering over the nature of money."

Money has been a subject of debate from the time it became a necessary part of the economic relations of men. Particularly since the modern system, called capitalism, and its accompanying curse, the industrial crisis, made their appearance, controversies over money have been advanced to major political issues. For the last two hundred years, literature on money, its functions, defects and cures of defects have increased even faster than the use of money itself.

Political economy, i. e., the science which treats with the laws governing production and distribution of goods, owes its development to this period also. This is natural because as long as goods were produced mainly for home consumption there were no mysteries connected with the process except those furnished by nature, such as the connection between the size of the crops and the amount of sunshine and rainfall. Such questions were largely left to theology until agronomy began to prove more reliable.

The explanation of money is an integral part of the science of political economy because money itself is an integral part of the system of distribution, which under the present economic system takes the form of exchange, i. e., buying and selling. All the differences of opinion expressed

in the many theories on money owe their origin to defects in the understanding of the system of production and distribution.

There are several schools of political economy, each approaching the subject differently and each reaching somewhat different conclusions. But they can all be reduced roughly to two: (1) the Marxian or labor school and (2) the capitalist school. Only the former lays claim to being scientific or to have fully discovered and explained the laws governing production and distribution. The latter as yet makes no claim to having become an exact science. It is here that controversy still rages. But regardless of division of opinion among the many sections within the capitalist school they are all agreed that the Marxian school is away off the mark.

The Marxian school has been in existence since 1859 when Karl Marx came out with his first volume on the subject: *A Contribution to the Critique of Political Economy*. On the basis of the discoveries concerning the laws governing production and distribution made by Marx, the assertions were made that, with the development of productive ability there would be a corresponding development of the seriousness and extent of the industrial crisis, of general mass poverty in relation to national wealth, of unemployment and pauperism, that the latter will increase "faster than population and wealth."

Although the correctness of the Marxian school is denied as firmly as ever, the above predicted developments cannot be denied in fact. It is on the basis of this school that the present attempt to explain the function of money will be made.

THE BEGINNING OF MONEY

move at a slower pace. Wholesalers and retailers alike have financial obligations, coming due before they are able to meet them. Commercial banks begin to face difficulty. Industry and equipment partially and wholly idle are not able to meet obligations at the investment houses. The whole banking system is thrown out of gear because activity and prosperity, expansion, has come to a close, and the reason takes on a two fold character: 1. With existing industry unable to find a market for the product of full capacity activity, there is no longer the incentive for new expansion. 2. With industries partly idle, financial returns are so curtailed that little new capital becomes available for investment. Lack of funds appear to stand in the way for new loans and new activity.

Meanwhile the mass-production equipment that capitalism has built has become geared for mass production of the good things of life. The working class has learned to operate mass production of the good things of life. The working class has learned to operate mass production industry and the working class is in need of the products. Profitmaking has developed into a shackle for further industrial development. But profit making does not benefit the working class. That class alone can free industry of its shackles and make the abundance of industry available for the workers' own use, not through monetary reform, but through complete abolition of the profit system.

Today commerce has become an enormous system, complex and variegated. It has local spheres, national spheres and international spheres. There is a difference between the function of money at the corner grocery store in the cash purchase of sugar, coffee or soap and its function in the large commercial banks in the discounting of bills. So also does it take on a different function when it is used to settle an international balance of trade.

To wade through the enormous labyrinth of commerce and to discover the how and the why of the behavior of money in all its different forms and functions would be an impossibility. It is the attempt on the part of the money reformers to do just this and then reach their conclusions before they get half under way with their investigation that brings forth all the "simple" cures which they are so well supplied with.

Happily there is an easier way. Money has not always existed in the many different forms or served in as many different spheres as it does today. Money, historically, has had a beginning. If we can get a clear picture of money and of its essential characteristics in this its early and simple beginning and then follow it up through its development to its present height, the mystery is solved.

It is now generally agreed that the human race did not come directly out of the Garden of Eden into a commercial world. It has been pretty well established that a long evolutionary process has taken place from primitive communal or tribal society up to the present "rugged individualistic" makeup. In the earliest forms of tribal society

where hunting and fishing were the main occupations and provided the source of livelihood, no exchange took place. Later when domestication of animals and the crude beginnings of agriculture began to add to man's means of subsistence, occasional exchanges of surplus stocks took place, not between individuals, but between tribes. Such exchanges soon began to prove beneficial to the parties concerned. At one place animals could be raised more easily, at another grain or other agricultural products were easier produced. An exchange would allow both sections the advantage of the easier means of production.

This saving in time and effort became the foundation for the further increase in exchanges and further division of labor. From the exchange of an occasional surplus to a general exchange of goods based on an increasing division of labor was a natural development. But with this development inconveniences would also grow up which needed solution. A community or tribe, and later an individual, would be producing more and more of one kind of goods for exchange but would at the same time need several kinds in return to satisfy his or its own wants. It became difficult to find the person or group who had a surplus of what one needed and who at the same time needed in return the specific article offered. Some article that was of such a nature that it had a general use, or was wanted generally, and at the same time was not too hard to transport from place to place, gradually began to function as a *medium of exchange*.

One would take this article in return for his own with the knowledge that he could use it again to acquire what

forces on a continuous technological development, also decrees that unless a business is able to expand it soon becomes so inferior to its neighbor competitor that it is forced to the wall. In its early stages, the capitalist system found no great obstacle to its natural growth. The more efficient methods of production made competition with hand producers an easy task. If the field already covered by the new capitalist method became glutted with commodities a crisis would occur, but only to send capitalists in search of new fields with prospects of success. Soon a new cycle of prosperity would surpass the last one. But for each new cycle of expansion the factors contributing to the coming of the next crisis were increased, while the factors contributing to its liquidation in a new period of prosperity were reduced.

Each respective cycle brought forth more productive ability, more capital with more surplus created but with a diminishing field into which to expand. On the industrial field this part of the surplus appears in the capital goods field: the building of new factories, new machinery, new transportation lines and equipment, new communications facilities, etc. In the field of money this part accumulated in the savings banks and investment banks of the country.

Whenever established industries are kept busy and their products absorbed by the market, the commercial banks are able to handle the monetary end of distribution with ease. Profits are then large, the field is favorable for expansion, the investment banks can find clients who want to expand and savings accounts find employment. As the new equipment is completed it begins to function, creating new products and new profits which will more than take care of obligations at the investment banks. Finally the market is oversupplied, established industries are forced to close, some altogether, others, partially. Goods on the market start to

others, like monetary defects, cures have been attempted as we have seen.

All these explanations, as well as the remedies suggested and attempted, have been advanced by people who have had an interest in profitmaking and who therefore have seen in the system of profitmaking nothing but the natural way of producing and distributing the good things of life. The crisis to them is therefore either something unavoidable, the passing of which must be awaited with patience, or it is due to minor defects which can be remedied by this or that reform.

To those who see in profit making nothing but a human institution, the passing away of which is as natural as its coming into existence, the crisis becomes a subject for more thorough scrutiny. The modern capitalist system is of necessity a system of profitmaking. Under it the good things of life are produced by wage workers who are permitted to work with equipment and raw materials belonging to the capitalists. The finished products, therefore also belong to the latter. With their wages, the workers buy part of their products. The rest, the part that must go for replacement of wear and tear as well as the part that constitutes the profits of the capitalists, remains in their hands. Replacement of worn out equipment creates no serious problem on the whole. The modern credit and monetary system facilitates the necessary exchanges among the different capitalist producers. The part that is to make up the profits is the part that faces difficulty. A subdivision of this part must of course be made. One part of this surplus goes for the living expense of the capitalists in their various degrees of luxury. But the important part must go to expand the business. No business considers itself in healthy condition, unless it can expand from year to year. Besides, competition which

he needed. The article which would best serve in this capacity would be different from time to time and from place to place. Thus, in the nomadic or herding period, cattle were given a new function. Besides serving as an important source for food and clothing by providing milk, meat and hides; and transportation by carrying burdens, they now also served as a means of exchange, as a first crude form of money. In America in the colonial period tobacco served to some extent in the same capacity.

But right here a problem of the utmost importance presents itself. When the exchange of things develops to the point where it gets beyond the mere exchange of an occasional surplus, and begins to include a part of man's needs, it becomes important not only to get something needed in return for the article one has for disposal, but also to obtain a large enough quantity. *How much* of some other goods can I get for a certain quantity of my own? It is not only a question of getting what I need; it is also a question of how much. A farmer who produces for home consumption, but who happens to have a surplus of grain and a shortage of potatoes would be willing to exchange a quantity of his surplus grain for a quantity of potatoes, without being too particular about the exact amount. But once that same farmer has become a producer of grain only, and has to exchange grain to satisfy all his other wants the matter of quantity becomes of the utmost importance. His very existence now will depend on what quantities of other goods he is able to get in exchange for his grain. His existence as a grain producer will of course depend on whether or not he is able to obtain more of the many different things he needs by specializing in grain production for exchange,

than he would if he produced the many different things himself.

This problem of fixing the proper quantities at which different kinds of goods will exchange has long been settled by the process of exchange itself, but the law which underlies and establishes these quantities was not so easily discovered. Already in ancient Greece, Aristotle put the question: "What is it that makes eight beds equal to, or exchangeable with, one house?" Aristotle was able to see the problem and put the question, but he was not able to answer it. He said that actually there was no equality, that the exchange relation had merely been established for convenience sake through custom.

It was only after the great revival of trading toward the end of the feudal period that this question took on importance and gradually began to be answered by the economists. By the 18th century it became pretty well agreed that it was the amount of labor incorporated in the different articles offered for exchange that made them commensurable, or gave to all the different kinds of goods a quality of equality when taken in proper proportions.

Thus in 1721 Benjamin Franklin said: "By labor may the value of silver be measured as well as other things. As, suppose one man employed to raise corn, while another is digging and refining silver; at the year's end, or at any other period of time, the complete produce of corn, and that of silver, are the natural price of each other and if one be twenty bushels, and the other twenty ounces, then an ounce of that silver is worth the labor of raising a bushel of that grain." Here Franklin also goes on to show how a change in productivity affecting one or the other

reason or another do not spend it or bring it to the banks as fast as they receive it. The real increase in money shows itself in increased bank deposits which rose from \$60 billion in 1940 to \$127 billion in 1944. By V. J. Day the deposits amounted to more than \$150 billion.

After the war came reconversion with its problems. Physical reconversion, the return to peace time production, was not so difficult. It came about quicker than most people expected. But to satisfy the demand for peace time goods seems to take longer. Prices for goods climb. Workers' wages will not advance at the same rate. Industrial strife increases. A peace time boom is in the making. How can it last? Will it be permanent? No, says the Marxian school.

The higher prices made possible because of shortages will stimulate business. It will also exhaust the war savings of the masses. It will bring about increased productive ability at a time when cash consumer ability will decline. Once more the boom is the forerunner of the crisis. The increased supply of money, the further advanced banking and business methods will stand as helpless in the future as they have been in the past.

THE CRISIS

No phenomena of economic life has received more attention than the crisis or what in America has gone under the name of panic. The more recent term, depression, seems to indicate not the doing away with the crisis but rather its perpetuation into a more regular part of economic life. Different "explanations" of the crisis have brought to light many alleged causes, from sun spots to lack of confidence, from monetary defects to the greed of capitalists. Some of these causes have been easier described than remedied. With

like the rest of the capitalist nations, could now find a place for its people. Twelve million went into the armed forces to carry on the job of destruction. The rest: the old, the very young, the crippled, the women, all were fitted into the production end of the war machine.

Money, so much in hiding for so long, became abundant over night. Production was doubled while the able bodied had stopped producing. The government, so hard pressed to find two or three billion dollars to finance unemployment relief, now could find a hundred billion dollars a year to finance the war. In fact, so well was the existing national monetary system functioning that no major monetary changes had to be made to carry out this enormous task. Between Pearl Harbor and V. J. Day, during a period of 1,346 days, the U. S. Government is reported to have spent \$317 billion for war materials alone. That would be at the rate of more than \$235 million a day.

While the government was spending money in almost incomprehensible amounts, the nation's population was also having more money to spend than ever before. National income, which was reported at \$49 billion in 1934, advanced to \$70 billion for 1939, amounted to \$149 billion in 1943, and came close to \$200 billion the following year.

It is plain that these huge sums of money did not come into being just because somebody started a war. In fact, the increase in the supply of money was but a fraction of the increase in business. The aforementioned banking and bookkeeping methods took care of the major portion of all transactions.

True, there was a great increase in "money in circulation" during the war years, from \$8 billion in 1940 to \$26 billion in 1945. But, "money in circulation" is mostly money held *out* of circulation by individuals who for one

of the two products also will affect their exchange relation: "Now if by the discovery of some nearer, more easy or plentiful mines, a man may get forty ounces of silver as easily as formerly he did twenty, and the same labor is still required to raise twenty bushels of corn, then two ounces of silver will be worth no more than the same labor of raising one bushel of corn, and that bushel of corn will be as cheap at two ounces as it was at one."

This labor theory of the equality of different kinds of goods or the labor theory of *value* established in the 18th century was finally reduced to a more exact science by Karl Marx when he pointed out both the difference and the equality in all labor. Thus the labor of the corn raiser is different from that of the silver miner, the labor of a carpenter is different from that of a tailor, etc. But in one respect all labor is equal, it takes time and human energy. It is this last named quality of labor, the part that is equal in all endeavors, the time element and the wear and tear on human energy which gives to different articles a measure of equality or value.

There is one qualification in relation to this measuring rod underlying all exchange relations. Value creating labor must be *socially necessary*. Articles produced must be of a kind for which there is a demand and the labor must be of average intensity. If articles are produced for which there is no demand, it becomes a total waste of human energy, the labor was socially unnecessary and created no value. If articles for which there is a demand are produced, but with a slower rate of speed than that prevailing for the time and place, as for example, if one reverted to hand production after machine production has become

the prevailing method, there is a partial waste of human energy. Such articles will have value not in relation to the labor time actually expended on them but only up to the amount required under the prevailing method of production.

Let us now come back to our problem of exchange. We followed the development of exchanges until the need for a medium asserted itself. We noted that such a medium had to be an article of general use, something that people wanted, and it had to be of such a nature that it could be moved about from place to place. Now we have seen how the *value* relation took on importance and what this value relation is. Nobody would like, nor can he well afford to give a larger portion of his own labor in return for somebody's lesser portion. To get as much as possible and give as little as possible in return is everybody's desire, but the practice of trading decrees equality on the average. And so the article that is to serve as a medium of exchange must be able to express this equality, it must be a *measure of value*. In other words, one who has an article for exchange does not desire to, part with anything of value, anything that it has taken him time and energy to produce, rather he desires to exchange it for something of equal value but of a different use. Instead of doing this in one transaction by a direct barter he has been forced to do it by two. He sells his article for money and then with the money turns around and buys the thing he needs. His first act, the sale, is only half of what he intends to do, the last act, the purchase, completes the transaction, but this last part would have been impossible if the money had not been good, in other words the money would have to,

soon as the price of silver went above this amount the rupee would begin to be melted down and sold, undermining the Indian monetary system and force Great Britain to stabilize India's currency. As it went, the silver purchase scheme was abandoned on the international market before the price reached the desired point, and this slam at the English monetary system did not get under way as soon as the silver purchase scheme was abandoned, the price of silver went back to its former level.

But the silver purchase scheme had established prosperity in the country's silver mining business. To abandon the scheme would cause a new and severe depression in this field. And so the government continued to buy domestic mined silver at an artificial price level. The country was burdened with excess reserves which the government tried to diminish by raising legal reserve requirements and by "sterilizing" gold. Into this burdensome over-supply of money the silver from the mines of the Southwest continued to flow. The over-supply continued to keep interest rates low and borrowing rather easy when collateral or security was adequate, but it did not create a new market for the products of industry nor did it prevent the market from being glutted.

WORLD WAR II

The "Great Depression" came to an abrupt ending. Monetary reforms and other governmental schemes had failed for a decade to bring back prosperity and full employment. The growing world rivalry for markets, sources of raw materials and spheres for capital investments burst all peace-time barriers. Appeasement could stretch no further. The military machine blossomed forth into operation. Unemployment came to an end. Men were sought. America,

the ordinary commodities and could be sold to an advantage at the high price. But the scheme was abandoned by Uncle Sam.

Mexico and other countries using silver for their monetary base had experiences similar to China. As soon as the price of silver rose above 72 cents an ounce, the Mexican peso became worth more as bullion than as coin, and the melting down process started. Mexico was then forced to change her monetary system and call in the outstanding old coins to avoid a complete monetary collapse. Mexico, however, was compensated by the fact that her large silver mining business profited from the higher prices.

The advantage to a country's foreign trade in having the value of its monetary unit reduced, relative to that of another country, has already been explained. When the Silver Purchase Act was passed, such a monetary "war" had gone on between the United States and Great Britain. The dollar had again been tied to a definite quantity of gold, the pound had not. This gave the advantage to Great Britain for the time being. The Silver Purchase Act would enable the U. S. to purchase English pounds with American dollars, to the extent that such pounds could be used to purchase silver on the London market. Such dealings tended to prevent the pound from falling relative to the dollar. Whether the advantage gained in this respect compensated for the expense involved is another unsettled question.

But the Silver Purchase Act was supposed to do more. The Indian rupee is tied to the English pound at a certain rate and is therefore not based on silver. Silver, however, is used as coins, and with the prevailing exchange rate between the pound and the dollar the silver in the rupee becomes more valuable than its coin value, as soon as silver is worth \$1.07 an ounce. It was figured that as

contain *value* or it would not serve as a means of purchase.

In these early and simple transactions we now already see developing the two main functions of money: (1) a medium of exchange and (2) a measure of value. Although money has many other attributes which we shall analyze as we go along, these two are of such importance that they deserve further observation. It is in serving in this dual capacity of a medium of exchange and a measure of value that one kind of article after another has assumed the function of money only to be discarded again in favor of some other kind which experience proved more suitable. Through this process of elimination and the survival of the fittest, gold today stands, the world over, as *the* money commodity, as the article best suited for use as money.

It has already been noted that the article which could serve as a medium of exchange had to be an article of general use, something which people would want generally. It also had to be something which could be transported from place to place without too much difficulty. Further, one need not study the problems of exchange very deeply before he will discover other necessary or desirable qualities for a suitable medium of exchange.

Such an article is not intended for immediate consumption. It must be passed on in an endless stream of exchanges. Milk would be no good, it sours and spoils too fast; even cows get old and die after a few years. As a measure of value other qualities are essential. The article itself must first of all contain value, but, preferably, value packed into small bulk in order to facilitate its transportation and storage. Hay has value as it is a needed article for fodder and takes human labor to cut, cure, and pack it.

But it is too bulky. A day's labor in hay would have to be hauled to the store. It could not be carried in the purse, and the cash registers would have to be differently constructed. Much value, or much necessary labor packed into small bulk, is a desirable attribute of the article that is to serve as money. Then there is the need for divisibility. A person sells one article or one kind of articles. He needs several kinds in return, each of which varies in value. Cows could not serve well as small change because they could not be cut up into pieces without being destroyed as cows. Metal, on the other hand, can be cut to any desired size, particularly the softer kinds that are more easily melted and moulded.

Uniformity of value is another desirable quality for a suitable measure of value. Cattle varies in value from head to head. To estimate the value of an article in cows, the size, age and other qualities of the cows had to be considered. The precious metals are much more uniform in value. An ounce of gold is always twice the value of half an ounce, once the purity or fineness is established.

All these qualities: utility, compactness of value, portability, indestructibility, uniformity of value, are needed in the money commodity. The precious metals, and finally among them gold, have proven to be best equipped with these and have therefore forced themselves to the front as the recognized money of the world, and this in spite of all the ravings of money reformers that a small clique of gold owners have forced their commodity into its enviable position of *the* money commodity, with resultant suffering to the rest of mankind.

systems and the true function of money. If China had been a country possessing or producing nothing but silver and, therefore, forced to purchase her supplies of necessities from foreign sources, with silver as her only means of purchase, the advance in the price of silver would have been to her benefit. Each ounce of silver would have purchased more of the needed foreign goods. But China was not thus situated. The people of China produce most of the things they need or use. A large portion of this is not even commercialized, it is produced directly for home consumption and is affected by weather conditions, rather than by monetary standards. The part that is commercialized or produced for the market is produced by people who of necessity must interest themselves in high prices. Cheaper foreign goods to them means "dumping." It causes slackening of business, bankruptcies, and unemployment. But that was not all.

Silver being the basic monetary substance, its advance in value soon caused silver bullion to be worth more than silver coin. The result was that individuals having silver coins would melt them down and sell the silver to speculators who would finally ship it to the London market and realize a good profit from Uncle Sam's generous bidding. This rapid draining off of China's monetary stock caused such a crisis in her money system that the silver standard had to be abandoned and a semi or managed gold standard adopted. This new money was linked up with the English pound, thus facilitating closer business relations with Great Britain instead of the U. S. Meanwhile the speculators who bought up the silver were mostly Japanese and much of their huge profits no doubt found its way in the form of taxes into the Japanese war chest and helped to extend Japan's military activities in north China. Of course after China had established her new monetary system silver became one of

customers in its specific relation to American dollars.

Besides these international effects proclaimed for the Silver Purchase Act, its passage was a political compromise, with the loud and insistent demands of the farmers and debtors generally, for cheaper money, which demand was linked up closely with the demand of the silver mining companies of the Southwest whose business was among the worst ruined in the country.

The act directed the Treasury to purchase silver in the open market until one or the other of two objectives had been reached: (a) the acquisition of a stock of silver equal in value to one-third of the monetary gold or (b) the rise in the price of silver on the world market to \$1.29 an ounce. To reach the first objective, the purchase of 1,300,000,000 ounces of silver would be necessary, and more if the gold stock continued to increase. Nobody knew when or if the second objective could be reached. The price of silver at the time the act was passed was 45 cents an ounce. A rise to \$1.29 would mean an advance of about 187 per cent. Up to the end of 1935, some 775,000,000 ounces had been purchased at an expense of \$442,000,000, the price rose from about 45 cents an ounce to 81 cents and then dropped back to its former level when the purchase scheme was discontinued on the international market.

Only one of the proclaimed or intended benefits from the act resulted. It proved a fine subsidy to the silver mining companies, but that was all. It did not "restore the monetary standard" of the East. The sale of American made goods in the Orient did not increase. On the contrary, it proved to be a factor in forcing China to abandon its silver standard, and America's trade with that country was cut about half. These contrary effects were no mystery to anyone understanding the workings of economic

THE UNIVERSAL EQUIVALENT

Today money is surrounded with a great deal of mystery. It seems to have powers almost uncanny. It can win wars, ruin nations, change the course of justice, and, as Columbus has said: "By means of gold even admission to Heaven may be gained for souls." This seeming limitless power of money as well as the actual limits of such power can also best be observed by following its development from its earliest beginning. As exchanges became more numerous it also became more important to watch out that the amount of goods received was of sufficient quantity to compensate for the goods alienated. The power that money has today began to show itself; and this even before money had a chance to develop.

Two persons confront each other with different articles for exchange. Each attempts to get as much as he possibly can in return for his own article. Each sees in the amount he is actually able to obtain a measure of the value of his own product. For each, the other fellow's produce becomes the measuring rod for the value of his own. As one kind of article gradually takes on the function of an exchange medium and becomes the recognized measuring rod it is in the hands of the purchaser. The conflict of interest existing between two making an exchange now becomes a general conflict between sellers and purchasers, but the deciding power seems to have been lodged in the medium of exchange rather than in its possessor and soon it gives rise to a new development.

The medium of exchange, evolved to facilitate the exchange of goods between producers, now becomes a tem-

porary aim in itself. The seller obtains the money. He needs several items in return, but not all the same day. He retains part of the money for use later on. Each exchange transaction, each sale and purchase becomes split up, a sale today, a part purchase tomorrow, the rest at a future date. This will cause delay in further sales. The possessor of money feels that he has the power to obtain what he wants and when he wants it. The possessor of goods has something he does not need, but without the sale he cannot obtain what he does need. To possess money becomes a favorable position. Some people by careful management are able to retain part of the money after each sale. They become savers and hoarders of money. Others are not able to do as well. Some are badly in need of money before they have anything to sell or before they are able to make the sale.

These make contact with those who have saved and hoarded money and obtain loans, and a new class division is established. A class of creditors and a class of debtors develop. The creditors have found a new way of increasing their stock of money by lending it at interest. The debtors learn, to their sorrow, that interest and principal are often hard to pay; at times it is impossible. The creditors being in the more favorable position made the rules concerning lending policies, rates of interest, repayments of principal, and penalties for defaulting. Such rules were strict, penalties severe and enforcement cruel. Loss of all property, and often of personal liberty, by being sold into slavery, were often results from inability to pay debts. The creditor class became hated and despised as usurers, and revolutions have been started by debtor classes.

THE SILVER PURCHASE ACT

Among the first acts of the Roosevelt Administration were those calculated to untangle the snarl into which the monetary system had fallen. Reducing the gold content of the dollar, authorization of the printing of \$3,000,000,000 in paper currency, liberalization of the regulations concerning paper eligible as backing for currency, and particularly heavy government borrowing with its bonds available for paper currency backing, have tremendously increased the monetary stock of the nation.

Into this general scheme for increasing the monetary stock, fitted the never wholly dead demand for a return of silver as part of the nation's money. Ever since 1873, when silver was abandoned for the single gold standard, silver mining companies, together with the farmers and other people in debt, have demanded its return. At times it was made a major political issue. This demand was partially met by the Roosevelt Administration, through the Silver Purchase Act which became part of the new monetary scheme. The act became law on June 19, 1934. Its purpose was proclaimed to be "to raise the purchasing power of the East" and restore to effective usefulness "the monetary standard of more than half the population of the world."

Back of the proclaimed benevolent purposes of the act was to be noted a desire to remedy a few problems, more concretely tied up with the international commercial affairs of the nation. Great Britain had been "off the gold standard" for some time and her lower valued pound sterling seemed to gain back for her a certain amount of lost world trade. Japan, too, was expanding her foreign trade, while that of the U. S. was shrinking. The Silver Purchase Act was "bound" to react against these countries, in favor of America, by greatly raising the purchasing power of their

meet obligations on time and therefore in need of more temporary loans, that the inadequacy of the monetary system appears at its worst. At such periods, temporary depositing of funds slows up. Withdrawals become more numerous. Obligations on loans are not met on time. The funds available for lending are exhausted. Soon funds available for withdrawals are gone and the panic is on. Usually when such periods approach, the larger banks, having a broader view of the business conditions, begin to tighten up on their lending policies, first as a measure of self-preservation. The tighter money market puts many firms in immediate financial trouble. It gives the appearance that the large banks deliberately brought on the crisis. The news of money stringency soon spreads and people begin to "run" to the banks for their deposits, not merely for their immediate needs but in order to protect their funds. Bank doors have to close, loans are called but the possibility of collecting has diminished. Foreclosure sales become an inadequate remedy because of lack of buyers. Now the question of reserves is raised.

Reserves are merely that portion of deposits held by banks ready for withdrawals. Held in bank vaults, it brings no interest. It is also money kept out of circulation and tends to create money shortage. In normal times any reserve seems adequate. Deposits more than take care of withdrawals. In times of crisis, reserves are always inadequate. The Federal Reserve Bank system was a national pooling of reserve funds. It was supposed to do away with monetary crisis for all time. It did not. The 1929 crisis and the following depression years, with almost one-half of the nation's banks going into receivership, were the worst the country has witnessed.

Such was the nature of the early Greek uprising in the time of Solon against the landlords and the mortgages. What is to be noted here is that it is the development of exchange and through this the development of one article as the measuring rod and the universal equivalent of all other goods that has given to this particular article its power. The glittering qualities of the precious metals make them desirable for decorative purposes, but it is their other qualities described above which have rendered them suitable for money; and only because they have become money have they helped to develop such powers as they seem to possess today.

BUYING IN ORDER TO SELL

Social progress did not stop with this early development of exchange, of money, and of creditor and debtor classes. Divisions of labor, made possible and stimulated through the development of exchange, pushed on to more and more division of labor. Sooner or later the very act of exchanging and the transportation necessarily connected with exchanges of goods became the main occupations of a section of the population. Instead of the producers themselves going about making exchanges of their wares, traders began to come on the scene buying surpluses of goods where these were obtainable and reselling them where demand could be found. Here again money started to function in a new capacity. It had developed as a medium of exchange, to facilitate the act of exchanging something, which was of use to others but not to the owner, for something which he needed. Now with the trader, it is used to purchase

goods for which he has no use, but which he intends again to sell, to turn back into money. Such an act is entirely without purpose unless more money can be received in return than was paid out in the first place. To buy in order to sell, to pay money out in order to receive money back, is without purpose. To buy in order to sell at a higher price, to pay money out in order to receive *more* money back, is the sole reason for such transactions. This the traders were able to do. By bringing surpluses of products around to places where these were needed, the traders rendered a social service for which the producers could afford to pay because of the time they thereby saved.

The traders having also a monopoly of the means of communication would naturally make use of such monopoly to induce in their customers, on the one side, a fear of an oversupply and a willingness to sell cheap, and on the other, a fear of shortages and a willingness to pay high. Trading thus becomes a new and lucrative occupation and profit-making was added to man's many ways of acquiring the good things of life.

One more step in this brief outline of social development and we shall find ourselves right up into the modern business world, where money seems to have its tentacles into all human affairs, to curse or bless them according to results achieved. But again, in the development of trade and profit-making, it is observable that it was not the alluring qualities of the precious metals, but the natural development and growth of exchange of goods, which gave to money its new function, and to the trader, his occupation and social standing.

gradually became representatives of other evidence of wealth, besides gold, such as commercial paper and even government debt, as long as the latter remains within the bounds of the taxing powers of such governments. Now we have further seen how mere bookkeeping replaces the use of any money in the vast majority of larger transactions. But experience continues forcefully to bring to everybody's attention the fact that the development in the medium of exchange has not cured the serious defects in the economic system, particularly, is this true of the commercial crisis and depressions from which not only America but the whole capitalist world periodically suffers with increasing intensity.

THE DEPRESSION YEARS

One of the apparent outstanding defects of the monetary and banking system has been its inelasticity. This defect is felt in various ways and in various degrees. In periods of prosperity, when most business is flourishing and expanding, many concerns are seeking loans and interest rates tend to rise. This seems very desirable to the investing section of the population. Their money brings them greater returns. But to those who have to borrow money in order to carry on their business, particularly the least successful, it seems that interest charges eat up all profits and at times causes bankruptcy. This gives rise to the demand for cheaper money. The fact that cheaper available loan capital would cause more investment in business undertakings, and hence more glutting of commodity markets, seems to be overlooked.

It is, however, at the further turn of the business cycle, when the market begins to be glutted, when the selling process slows up and short time borrowers are unable to

ready for temporary rather than permanent investment.

One thing in particular needs to be observed in relation to the whole banking function: The immediate depositing of all funds received and the payment of bills by the checking method makes possible the building up of deposits and loans in a much faster ratio than the increase in actual cash money. A deposits \$100, B makes a loan of the same amount and makes a new deposit with the loan. He issues a check to C, who comes to the bank with it as a new deposit. In this manner deposits and loans are built up while the actual cash remains a diminishing part. In recent years the amount of deposits have been about ten times the actual amount of money in circulation.

Thus it is reported that by the middle of 1937 money in circulation amounted to \$6,447,000,000 and all money outside of the U. S. Treasury was \$9,901,000,000. Deposits in banks, excluding government deposits or redeposits by banks, amounted to \$50,094,000,000. The ability thus to make use of what is called deposit currency rather than actual money has greatly reduced the cost of financing the exchange of goods. But the clearing of checks or the ability of banks to cancel checks against each other, without moving of funds at all, is by far the greatest economizer in monetary affairs. Thus in the city of New York alone there were \$193,548,000,000 "cleared" in 1936 and for 164 cities the total clearings for that year amounted to \$326,-823,000,000.

We have observed how the early crude beginnings of trade were gradually being facilitated, by the use of one commodity functioning as a medium of exchange. We have seen how the precious metals excluded other less suitable articles as the money commodity, how the precious metals came to be represented by paper money, how paper money

MONEY AS CAPITAL

Today, the word *capital* is widely used. We hear of finance capital, of commercial capital, of industrial or productive capital. Money, when accumulated into anything which might be termed large sums and particularly when it is used in any way calculated to make it grow, is called Capital. The same term might have been applied to the early accumulations of money which were either used to lend out at interest by the usurers, or to engage in trade by the traders. Yet there is a great difference between the early functions of money for lending and trading purposes and its function as capital today. But this transformation has also been a gradual one. Development in navigation and the discovery of new continents by the European explorers in the 15th and 16th centuries gave such an impetus to trade that the traders found themselves confronted with a general shortage of goods, a shortage which the old methods of production were not able to fill. Higher prices were not enough to break down old restrictions to increased production. The traders themselves started to produce goods for their fast expanding markets. But they did not get their own hands soiled in the process. The money they formerly had used to buy ready made goods was now used to buy raw material and to hire laborers.

These laborers would then, under the direction of their employers, turn the raw materials into finished products. By rearranging the productive process, bringing more workers under one roof, subdividing the labor process and giving to each worker a definite part to do, production

was improved. More products could be produced in a given time, manufacturing superseded handicraft as a method of production. But manufacture was production exclusively for sale. Its more efficient methods, and the consequent low prices for the products, were able to break down home production in one field after another until today hardly a thing of importance is produced in the home for home consumption.

It must not be understood that the 15th century was the first time that money was used to hire labor, or to pay for the services of man. Occasional hiring of free men for certain kinds of labor had existed even in ancient slave societies. But the 15th century marks the beginning of the modern epoch when production of goods exclusively for the market, and with the exclusive use of wage labor, began to compete out of existence other forms of production. Now a completely new set of problems arise and demand solution. New and weird laws begin to assert themselves in the relations of man with man and in man's attempt to solve his economic problems.

Natural calamities, droughts, floods, animal diseases and other causes of scarcities had marred man's existence through all past ages. Now overabundance, unsalable goods, a glutted market, great surplus stores seem to act as causes for hunger and want. The industrial crisis has grown in seriousness and extent comparable only to the growth of productive ability.

Production of goods exclusively for sale on the market and carried on with the use of wage labor is called *capitalist production*. It involves the use of money from start to finish. The capitalist starts out with money. He buys raw

at times when they are least able to meet them. Other practices of the commercial banks could be mentioned which tend to promote the smooth operation of business in normal times but which sometimes involves the bank in duties which are impossible to perform. These are all connected with the business of keeping as large as possible the amount of the deposited funds loaned out and actually engaged in business and at the same time having these loans so arranged that they can be called in whenever needed to meet depositors' demand for cash.

Call loans are made to stock exchange brokers and are so named because they are subject to call at any time. When such a loan is called, the stock broker merely obtains a similar loan from another bank. But when the crisis is on with many loans called and no bank in position to make new ones, these assets also become frozen.

Commercial paper is defined in a broad sense as: "Consisting of the short time notes of business firms and corporations, given by the latter to banks or allied institutions in return for funds with which to finance their current operations." Part of this consists of loans by the depositors from their local banks, while part of it takes a different form and becomes classified, in a stricter sense, as commercial paper. Large firms are sometimes in need of rather large sums of money for short periods. Large dealers in farm commodities need more money when crops are ready for marketing than at other times of the year. Other firms are confronted with similar conditions. The local banks are usually not in a position to finance such large undertakings. A commercial paper house, similar to an investment bank, takes such loans and reissues them in small denominations of \$1,000, \$2,000, \$5,000, etc., and sells these to commercial banks and others with liquid funds

large or small, has learned to make use of the commercial bank. This practice has very greatly reduced the total amount of cash needed. The saving has been brought about in various ways: 1. By promptly bringing incoming funds to the banks, a great fund accumulates for lending to those whose immediate outgo exceeds their income. 2. By the checking methods the funds are not withdrawn when payment is met. A check is drawn against the deposit. When this is presented for payment, cash still remains in the bank, it is merely transferred from one account to another. 3. Many of the business payments must be met at a distance. Instead of having a great many funds in transit forth and back between the different cities and the different sections of the city, checks are forwarded. By a clearing house system, the banks have learned that most of the checks cancel each other, until only a small fraction of the total amount actually has to be shipped. 4. Bankers' acceptance makes possible a freer use of credit over the whole country.

To grant credit, with safety, it is necessary to know something of the firm's solvency and business standing. At a distance this is not always easy. A firm to obtain credit at a distance, therefore draws its note for 90 days or any other specified time against its local bank. The bank official, who knows of the client's financial standing, writes the word "accepted" together with his signature across the face of the note. This makes the bank responsible for payment and the note acceptable in business transactions. With prudence exercised by the banks in not "accepting" notes of shaky firms the practice facilitates business as long as business runs normally. But here, too, the crisis, and the failure of many firms to make good on their promises upon due dates, will involve the banks in obligations for such paper

materials and hires laborers. The finished products must be sold and again turned into money before the capitalist is satisfied. The money returning to the capitalist is of the same kind he paid out. No purpose has been accomplished unless the returning sums are larger than those paid out, in other words, profit is the aim of capitalist production. All the things used in such an undertaking, the buildings, the equipment, the raw materials, the services of the workers and the finished products are parts of the total capital; and as all these things are bought with money and again sold for money, money has become capital in the hands of the capitalist. But the part that is paid to the workers continues in the hands of the capitalist as capital in the new form of labor power. In the hands of the workers this money ceases to be capital. It assumes its original function of a medium of exchange. The workers sold part of their time, strength and energy, for money. With the money they buy back what they need, food, clothing, shelter, etc. Before people could be induced to sell themselves piecemeal this way, something had to happen; they had to be deprived of any access to the means of production whereby they could produce their own sustenance.

This process was pretty well under way when wage-labor began to take on importance, and the growth of the capitalist system of production has further helped to deprive larger and larger sections of populations of all independent means of existence, reducing them to dependence on the one source of livelihood, the getting of a job.

This is not the fault of money. Whether between the capitalists and the wage workers in the buying and selling of labor-power or between the wage workers and other

legal tender, i. e., it became established by law what kinds of money should be considered full and adequate settlement of obligations.

Meanwhile, coins, worn in various degrees, were circulating and serving as well as full sized ones. As a measure of value, i. e., to fix prices, the coins need not even be present. All that is needed is that sellers and purchasers have certain values in mind. These were furnished not by the actual weight of the coins but by their inscriptions. As a medium of exchange, the same coins would be accepted in full payment, with the knowledge that they could again be passed as such in the next transaction. To the hoarder, on the other hand, these underweight coins would not be as good. As a hoard they would represent no more than their actual weight and metallic value. Governmental rules concerning coinage and weight and fineness of money would change from time to time, while the hoard would contain nothing but its own real weight and fineness.

Yet the very fact that coins would function without trouble, when in reality they represented more value than they actually contained, has given rise to new practices and theories concerning money. If a coin, one-half or three-quarters the weight it is supposed to contain, can circulate as a full coin, then any token regardless of its own value, should be able to circulate as a representative of a stipulated value. This has been tried out in practice and found to work satisfactorily as long as the actual values were held in readiness to back up the representative tokens whenever wanted. Thus we find today that not only are the smaller coins made out of cheap metal,

charging State banks a 10 per cent tax on paper money issues. This prevented state banks from further issuing of paper notes, and a much more uniform national paper currency was the result.

However, before the National Bank Act was passed, in 1862, in order to meet its financial obligations for war supplies, the government issued irredeemable legal tender notes commonly called "greenbacks." This was nothing but the establishment of a national debt to the public in general. The greenbacks rose and fell in value during the war in response to the apparent success or failure of the government's side in the conflict, it being generally understood that should the war be lost there would be no chance for redemption. After the war was over the greenbacks continued in circulation for lack of anything better to take their place. By 1875 provisions were made to redeem them in gold. This brought them at once to par with other currency and they remained in circulation.

This final bringing about of a uniform system of legal money for the whole nation seems to have left much to be desired, as witness several great panics in later years; 1873, 1893, 1907, 1914, 1921, and not to be forgotten, 1929. Each of these have brought about bank failures, financial stringency, and hardships, which takes the appearance of springing from shortage of money or other monetary defects.

DEPOSIT CURRENCY AND BANK CREDIT

To get a better understanding of just how the banking and monetary system contributes to this apparent defect, in its own workings, it becomes necessary to look a little closer into the actual working of the modern banking system.

tomorrow. And so business goes on from day to day without much looking into the process through which the paper notes came into existence.

Finally an ugly factor appears to put a stop to the seemingly smooth running business. Business is carried on for a purpose other than the simple exchange of goods. It is carried on for *profit*. The profits of one week or month are expended to bring more business the next. The market does not expand correspondingly. Goods begin to pile up. Instead of using the money for more expansion of business it becomes the policy to save it for a future time. Money becomes more than a measure of value and a medium of exchange; it becomes crystallized wealth, value in its pure form. Now paper no longer suffices, it is the real substance that is wanted. \$86.16 does not go far in redeeming \$580,000. The bubble is burst and the banks collapse. Much improvement has been made in banking and bank regulations since "wildcat" days, but the business cycle and its effects upon money and banking has not been removed.

The American Civil War, like all wars, tremendously increased the financial obligations of the government. The need to raise such government funds, together with the general dissatisfaction with the unreliable and oftentimes valueless state bank notes, made possible the passing of the National Bank Act in 1863. This act provided that state banks could take out National Charters provided they met certain obligations among which was one that they buy government bonds to an equal amount of their capital stock, but that these bonds could be deposited in the U. S. Treasury as security or backing for bank notes issued by the banks in equal amounts. Thus government debt rather than gold became the backing of a part of the paper currency.

In 1866 an amendment to the Bank Act was passed

the value of which is only a fraction of what the coins, or rather tokens, represent, but the larger coins as well have been retired and circulation is taken care of by their paper representatives.

The success of this practice has given further encouragement to the idea that tokens could be made to represent the value of goods directly and that therefore the gold or other precious metal held as backing for currency was unnecessary. This too has had its trial in practical application, but with less success. Governments in distress, as e. g., when wars are carried on, have resorted to paper issues of currency when gold was no longer available as backing. Such practices have automatically raised prices and, if the practice were carried far enough, values represented have disappeared altogether as in Germany following World War I. There are some who will yet argue in favor of paper currency without metallic or other valuable backing except the government stamp. They usually belong to the debtor class who in periods of distress are eager for a way to settle with their creditors. We shall come back to this phase in the chapter on credit.

One more problem in connection with the wear on coins. Once it became recognized that governments had to fix legal limitations for the circulation of worn coins, the demand also presented itself for governments to restore coins to their original weight. With millions of coins constantly in circulation, this wear amounts to a great loss. Every time worn coins were remelted and recoined, the lost weight would show itself in fewer new coins. New gold would be necessary to fill the gap. Instead of adding this expense to their many others, governments, time and

again, have proceeded the other way. Instead of adding new metal, to replace the part worn away, they have changed the required weight for all coins, and to such an extent that there would be a "gain" instead of a loss for those governments.

The changing of the gold content of the dollar by the Roosevelt administration in 1933, resulting in a "profit" to the Treasury of some two and a half billion dollars, was by no means the first time a government has resorted to this practice. The English pound sterling is said to have at one time contained one pound of silver. Long before the gold standard was adopted, the silver in the pound sterling was considerably less than a pound. This reduction did not take place at one but at several intervals and with much political dispute, particularly in later periods when Parliament had replaced the kings in the control of coinage.

AN ADEQUATE SUPPLY OF MONEY

Shortage of money is at times one of the great handicaps of present day society, especially during depressions. Goods on hand can be seen everywhere. Plants, idle or part idle, stand ready to produce more. People in need of goods can be found everywhere. Yet goods do not move. Plants remain idle. At times when even the banks are short of money, it would seem that a more adequate supply would ease the situation. At such times, money reformers are busy and money reforms are resorted to without however completely overcoming the trouble. The question then is, just what will constitute an adequate supply of money?

It is obvious that this great fluctuation in the supply of money did not result from any planned monetary policy. It is also clear from historic records that the fluctuations did not correspond to business needs. But still more outstanding is the fact that neither the monetary nor the business fluctuations corresponded to the needs of the rapidly growing population which was equally rapidly becoming dependent upon business and the commodity market for its existence.

Lack of State regulatory legislation and lack of enforcement of what regulatory rules there were, no doubt contributed to the vast expansion in paper currency issues, as well as their contraction whenever their lack of real value became known. But there are economic laws at work in the business world. These laws assert themselves regardless of legislation. It is here that the true economic nature of money shows itself. As has been pointed out before, money is a measure of value and a medium of exchange. To be a measure of value, money must itself have value, but it need not be present in fact. It is enough that the contracting parties know of the monetary values in order to come to agreement as to price. Money thus far exists only in the minds of the buyer and seller, "ideal money" as Marx calls it. After the price is agreed upon and the transaction is to be carried out the actual cash has to be present.

But in periods of prosperity when goods are in demand, everybody obtaining money has the intention of parting with it immediately for other goods. Paper notes appear alike, if some are good today, more should be good tomorrow. If I sold good potatoes for paper notes this morning, I should be able to obtain farm implements for them before leaving town. If the implement dealer sold good machinery for the notes today, he should be able to pay his rent with them

also ran for 20 years and \$1,500,000 was paid for it. It authorized a capital of \$35,000,000, of which \$21,000,000 was to be U. S. bonds and \$7,000,000 in coin and bank notes. The charter of this bank lapsed in 1836 and a new one was not granted. Meanwhile State banks had sprung up in all states with various degrees of state regulations, but mostly with absence of regulation.

This is the period of banking development known for its "wildcat" banks, and which lasted up to the Civil War period. In 1809, a legislative committee of the State of Rhode Island, made an examination of the affairs of the Farmers Exchange Bank of Gloucester and found that the bank had \$580,000 of its notes in circulation and \$86.16 in metal coins in its vaults for redemption. The same year the banks of all New England were forced to suspend and it was found that the general condition was not much better than that of the Gloucester bank.

One of the great demands of expanding business is that the monetary system must be expanded so as to provide adequate funds for all legitimate business transactions, yet be subject to control to such an extent, that the money market will not be so crowded with funds, that prices shall be driven too high.

The "wildcat" bank period provided plenty of fluctuation in the supply of money but the fluctuations did not seem to correspond to the needs of business development.

Money issued and circulated in this period by the State banks are reported to have fluctuated as follows:

1811	.....\$	28,000,000	1837	.....\$	150,000,000
1816	.....	160,000,000	1843	.....	58,000,000
1818	.....	40,000,000	1847	.....	105,000,000
1832	.....	60,000,000	1857	.....	215,000,000
			1858	.....	\$150,000,000

We have learned that money contains value just as well as the goods which are to be exchanged. It is clear then that a day's labor in gold would be adequate to purchase a day's labor in wheat, lumber, cotton or whiskey, and a million days' labor in gold would purchase a million days' labor in other goods. In other words, a supply of money equal in value to the values of all the rest of the goods produced for exchange would be sufficient. If the nation produces 60 billion dollars worth of goods in a year, 60 billion dollars would be adequate to effect an exchange of the whole supply. From this absolute sufficient amount some drastic reductions can be made. It is obvious that the 60 billion dollars worth of goods are not sold in one deal, but in many. The splitting up of the sale into many smaller ones would not affect the amount of money needed if the sales all took place at the same time.

But this does not happen. Sales take place every day of year and every part of the day. A dollar which is used but once during the year will purchase but one dollar's worth of goods. If it is used once a month it will purchase twelve dollars worth during the year, if once a week, 52 dollars worth, and if once a day including Sundays, one single dollar would cause the transfer of 365 dollars worth of goods during the year. It can therefore be laid down as rule one that the amount of money needed can be reduced as many times as each average dollar is used during the year. But then again, goods are often sold several times before reaching their final resting place with the ultimate consumer. Manufacturers sell to jobbers, these to wholesalers, these to retailers, and these again to the consumer. Thus after having reduced the money according

to the number of times each dollar is used they would again have to be increased according to the number of times the goods are sold.

From this, however, some more reductions can be made. Much goods are exchanged directly for other goods, money being used merely as a measure of value but not as a medium of exchange, and such exchanges require no actual cash. A farmer learns that his eggs are worth 20 cents per dozen and that coffee is worth 25 cents a pound. He is able to perfect an exchange upon this basis without using any money. The sum total of all such transactions can be deducted from the supply of money actually needed.

The next reduction will be more substantial. Money does not only serve as a measure of value and a medium of exchange, it also serves as a *means of payment*. It serves to pay debts. Contracts are made for the sale and purchase of goods with stipulations that payments are to be made in 60 days, 90 days or any other set time after delivery. Sales do not all go in the same direction. A sells lumber to B. B might sell steel to A, as the bills come due they balance each other until only a fraction of the sums has to be furnished in cash. All such balances where goods have been sold in both directions and no money is required on due days will greatly reduce the amount of money needed.

To further economize in the use of money, banks function as clearing houses, and balances which take care of each other between individuals and between individual firms are taken care of for whole districts. Purchases made in New York by Chicago firms are balanced against purchases made in Chicago by New York firms, etc., until

those most in need of low interest rates.

In 1791, under President Washington and the Federal Party Administration, the first United States Bank was chartered by Congress. A twenty-year charter was granted and a capital of \$10,000,000 authorized—\$2,000,000 to be subscribed by the Federal government and \$8,000,000 by private citizens. Of the latter, \$2,000,000 should be in money and \$6,000,000 of government debt certificates. The bank was to function as a depository for all U. S. funds and thus in reality as the government treasury. It provided the avenue through which government obligations could be established or liquidated, and thus a means of strengthening the federal government. It became the subject of much accusation of centralized power and, in 1811, when its charter had run out, it was not reissued under Madison and the Republican Administration then in office.

The War of 1812 created the need for heavy federal government financing. This was done by issuing Treasury notes but in such large denominations that they would not circulate as money. They therefore accumulated in the State banks. By 1815, \$25,000,000 in smaller notes, bearing no interest, were issued. These were made legal tender for all debts owed the U. S., and for all tax payments, but not for private debts. The U. S. Bank, now suspended, for lack of a charter, was in the process of collecting outstanding loans, as these became due. This bank refused to receive the U. S. notes from its debtors and the notes began to depreciate.

This fact, perhaps, contributed toward the chartering of the second United States Bank in 1816. This charter

good as long as the Venice variety. In 1778, a savings bank had been started in France, by a fraternal society. The bank was limited to the use of members only. In England, in 1789, Mrs. Wakefield established a Poor Children's Savings Bank at Tottenham. By 1804 this was transformed into a regular bank, and by 1817 sixty more banks were in operation and an act of Parliament was passed regulating their function.

Governmental needs for money, particularly in times of war, and private lenders' insistence upon high rates of interest, have contributed much to the development of banking institutions. From the feudal period remain records of interest rates as high as 216 per cent. In the time of Charlemagne, 100 per cent was considered usury. Emperor Frederic fixed the rate of interest at 10 per cent, but only for Jews. The general development of trade and the ability of traders to take care, through joint effort, of their mutual obligations, rather than legislation, have been the main cause of lower interest charges. When the Bank of England was being planned, the Tories raised the objection: "Banks are republican institutions. Flourishing banks exist in Venice, Genoa, Amsterdam and Hamburg, but who ever heard of a bank in France or Spain?"

In America a centralized monetary and banking system has had to fight its way not so much against private money lenders and their desire for high interest rates as against the States Rights issue. This issue was further confounded by the fact that it was the trading class, largely engaged in international trade, who wanted a centralized and unified monetary system, while the States Rights demands were pressed by the settlers and debtors generally and, therefore,

the vast majority of all major transactions are reduced to a clearance of balances without the use of money. This method of clearance and balances in payments of debts or accounts tremendously reduces the amount of money needed. Thus we find that in 1929 when the national income was estimated to be 78 billion dollars and the amount of actual transactions many times that amount, money in circulation was \$4,700,000,000. By 1932 when money seemed to have gone into hiding it had actually increased to \$5,600,000,000, while the national income had gone down to 47 billion. Again, at a later period, when the monetary stock of the nation had been increased so tremendously, from \$8,538,000,000 in 1929 to \$19,376,000,000 in 1937, money in circulation was not over \$5,500,000,000. The rest was either in the Treasury vaults or bulging in banks waiting to be taken into use.

Much can be said about the need for a better system of distribution, but more money would not solve the problem unless the money were in the pockets of those who need goods. There is no national shortage of money. Wherever people have goods to exchange, they always find some means whereby exchanges can be carried out. But the modern system of production and distribution is not so simple. To begin with, as soon as people start to sell goods without carrying out the second act of buying, there appears the first obstacle to exchange, not because of any shortage of money, but because those who possess money are not ready to part with it. A shifting of a larger section of the population into mining of precious metals would seem to take care of such a situation. But hoarding was only one of the early obstacles to a smooth-

working of exchange relations. The splintering up of exchanges into separate sales and purchases made the *market* the regulator of production. No one would know whether or not his particular product would be salable until he had it produced and transported to the market. Here, only accident would decide whether one's product was of a kind which others had already supplied in sufficient quantity to satisfy the demand, whether it was such that no demand existed for it, or whether there would be a call for it. In such cases it would not be shortage of money but the lack of knowledge of just what the market could absorb, or the lack of ability to produce the particular goods in demand which would cause the trouble.

As has already been pointed out, evolution of the process of production and distribution did not stop with the coming into being of a commodity market. On the contrary, it was now that it took on momentum. The market provided an outlet for cheaply produced goods. Mass production with the use, mainly, of wage labor provided the cheap products. Gradually, hand production and slower methods generally, were competed out of existence. These hand producers, having no longer anything to sell which the market would absorb, would be without money, not because of a money shortage generally, but because they as individuals no longer had the means of obtaining money. No longer able to bring goods to the commodity market, they had to bring themselves to the labor market.

Laws have been passed by legislative bodies to the effect that "labor is not a commodity," but the laws governing the commodity market assert themselves also on the labor market regardless of legislation. The best and cheapest

panics and depressions continue to advance new accusations against monetary and banking practices and bring new demands for changes.

The earliest institutions which properly can be described as banks were the mutual cash depositories and credit centers of the free trading city republics of the feudal era, such as in Venice, Genoa, Amsterdam and Hamburg. The fact that these institutions became able to lend cash to governments and thus became depositories of government securities, added further to their development as banking institutions.

Advocates of the inconvertible paper money theory will list as the earliest bank in history such a credit establishment in Venice. In 1171, this city republic, was in danger of invasion by Asiatic hordes. Duke Vitale Michael II called on the wealthy citizens to contribute to a loan of 2,000,000 ducats, to finance the defense. Credit certificates of small denominations were issued and made transferable. These certificates came into use in trade and debt settlement, between the citizens. In 1797, when Napoleon invaded Venice, and looted the bank or city treasury, it is said that no gold was found but only the names of the citizens who 600 years earlier had contributed to the loan. The certificates had been reissued as wear and tear demanded and had functioned as satisfactory currency for the whole period.

In 1775, while certain people were as yet "Your Majesty's most faithful subjects" to the king of Great Britain, the Continental Congress had issued \$6,000,000 in paper currency bearing the inscription: "This note entitles the bearer to receive — Spanish Mill dollars, or the value thereof in gold or silver." These Continentals did not remain

1937, the Federal Reserve Notes in use amounted to four and one-half billion dollars, while gold in the Treasury vaults amounted to twelve and one-third billion or 63 per cent of the total monetary stock.

In 1933 there seemed to be a great shortage of currency. In 1938 the banks were bulging with excess reserves. But the economic security of the masses of the population had not been established. A different kind of paper dollar might easily have created more chaos and instability, but no paper dollar under our present commercial setup can ever be expected to make the abundant products of modern industry and agriculture available to the masses.

BANKING AND CREDIT

The great development in commodity production and consequently of trade during the last 150 years, has not only transformed the goldsmith's storage receipt into the various types of paper currency in use today, it has also transformed the goldsmith's establishment into a great and complicated banking system, capable of financing a multi-million dollar undertaking or a thousand dollar farm dwelling with equal ease. This development has passed through many difficulties where governmental intervention and restrictions have been found necessary. It has provided means for much abuse and personal enrichment of bankers at the expense of savers and investors as well as of borrowers. The demands and needs of the business world have been strong enough to eradicate much of such abuses and defects, insofar as they can be laid to dishonesty, or lack of good judgment. But the ever recurring

are taken first. A glutted labor market, like a glutted commodity market, reduces prices and leaves a surplus unsold. In other words, low wages and unemployment become chronic conditions. Money still remains a medium of exchange and a measure of value. It functions in the exchange of equivalents, the exchange of equal values.

But the exchange of one's labor wrapped up in corn, cotton or leather, for some one else's labor wrapped up in sugar, coffee or silk is quite a different thing from the exchange of one's labor, wrapped in his own bodily strength, for some one else's labor in such necessities of life as will rebuild the bodily strength expended while working. The one is an exchange of equivalents between social equals. The latter, too, is an exchange of equivalents but between social unequals. In the latter case one sells his own bodily strength in order to live, the other buys it in order to make a profit. But although millions of people are willing to go through with such sales and thousands of others have the money to become purchasers, the deals cannot be consummated except when the commodity market is able to swallow the products of the labor which such deals set in motion.

This evolutionary process, which has developed and speeded up productive ability on the one hand but left the development of the market to a much slower process, is the real cause of economic troubles, such as depressions. The remedying of these troubles has thus far been left to the class of people who profit from the workings of the system or who would like to make profits. Those who are at the losing end have always been waiting and hoping for "something to turn up." The result is that money

reforms have been among the main issues in politics, whenever economic troubles have shown signs of growing worse.

In the development of this money reform movement two distinct trends are to be noticed. On the one hand there have been many attempts to "improve" the monetary system by those most successful in the world of business. They have wanted a combination of sound money, economy in monetary transactions, prevention of counterfeiting, and stable monetary values. On the other hand, those not so successful, those confronted with difficulties and business failures, the debtor class generally, have been pressing their demands for more and cheaper money. It goes without saying, that those in the first group have been more successful. This has been so not only because this group has more economic power and ability to put their schemes through, but more because their schemes were usually sound, insofar as they would simplify and promote monetary transactions. The schemes of the less fortunate group, on the other hand, have never more than temporarily retarded their general descent in the economic scale. And even this temporary benefit has by no means always been connected with such moves. We shall consider some of the main "sound" money reforms.

PAPER CURRENCY

Mention has already been made of one factor contributing to the adoption of the use of paper currency. This was the wearing down of metal coins and their ability to circulate as full coins after a considerable part of their weight had disappeared. This might have been the main

point where the paper money has become worthless.

It will be remembered that the emergency bank legislation of 1933 provided authority for the issuing of three billion dollars of this kind of money, as one of the means for reestablishing the monetary system thrown out of gear by the crisis of 1929 and the following long depression. Other and less drastic methods, however, proved sufficient for the reestablishment of financial stability, so that this paper issue was never put to test. It was argued later by many money reformers, that if this and other similar paper issues had been put into circulation, it would not only have saved the government many millions in interest payments, but also that it would have restored higher commodity prices much more quickly and hence more business and better economic conditions for all.

It cannot be denied, that a more lavish supply of paper currency would have started prices on the upward climb. But to find the proper level at which to stop the climb as well as the actual act of stopping it would have proven more difficult than money reformers will admit. And still more difficult would have been the transfer of the advantages of higher prices to the masses of people who had need for goods but nothing to sell.

Between these two extremes of paper currency: the simple deposit method, and the inconvertible paper money, is to be found the many attempts to economize and to provide more elasticity to the monetary system, without injuring its value and stability. The present Federal Reserve Note, based, theoretically at least, on 40 per cent gold and 60 per cent commercial paper and government securities, has become the one most commonly used. By the end of

method will prevent depreciation of the currency even more than the circulation of gold itself, because it preserves the gold coins. On the other hand it has proven too inelastic as a practical method. In periods of normal business the need for such a full reserve has appeared groundless and wasteful. It has brought about demand for at least a partial use as a measure of economy. It has also at times proven too much of a temptation to sovereigns or other custodians, and the money has been put to use regardless of legal restrictions. On the other hand, in periods of crisis, governments have found it necessary to suspend specie payment to preserve their economic stability, even though the notes stipulated redemption and the gold actually were in existence.

At the other extreme of the paper money variety is "the paper money method" or inconvertible paper money. This simply means that the government issues paper notes and by law orders it receivable as legal tender. This in effect amounts to the establishment of a government debt without a particular lender and without interest payment. Such issues have functioned satisfactorily, on a few occasions, when held strictly within limit and withdrawn by proper substitution of real values. It is obvious, that such issues can function as money only as promises to pay and must be redeemed in the end if nobody is to suffer loss. Objection to this kind of money comes first of all from people who have money to lend and who look to government bonds as a reliable investment and source of income. Its most serious defect as the functioning monetary system of a country is that governmental needs always drive to over-issues and hence to depreciation or price inflation, to the

factor giving rise to the idea that tokens as representatives of real money would function in circulation. But it was not the only factor contributing to the development of the use of many different kinds of paper currency. Storing and safekeeping of valuables, including money, was an early practice. Before banks made their appearance, goldsmiths would function in this capacity.

People who were afraid of losing their money or valuables through theft, fire, mislaying, etc., would bring them to the goldsmith, who for a consideration would keep them until called for. Receipts would be given the depositors, and such warehouse or storage receipts would sometimes be transferred from one person to another before they were presented for withdrawal. Other goods as well would be deposited for various reasons, transportation, etc. Storage receipts and bills of lading were issued. These, too, were sometimes transferred between individuals in settlement of claims and were thus in a limited way functioning as money. With the growth of trade and the consequent increase both in amount of goods shipped and the distance of shipping, all these various kinds of receipts would grow in amount and their use in settlement of claims increase.

The various kinds of goods or valuables stored or shipped gave rise to various kinds of receipts. Thus there would be promises to keep certain articles until called for. There would be other promises merely to keep a certain amount of some kind of goods without specifying the actual pieces. This would be done, e. g., with money, grain, or other articles of which one piece, or a quantity, would be equally good with any other pieces or quantity.

This latter form would soon prove to hold great possibilities. First of all it would do away with the need for keeping a separate compartment or package for each customer. All identical pieces could be stored together, and an account of the quantity belonging to each would be sufficient to satisfy all concerned, as they came to claim their goods. Second, and much more important, it would soon become plain that it was unnecessary to keep all goods received. A warehouse man or other custodian of such identical goods would in time learn approximately how much goods would be withdrawn from week to week, and from month to month, in comparison to what would be brought in. Instead of keeping the whole amount in storage he could make temporary use of a part of it and just keep a sufficient *reserve* on hand to satisfy all claimants who presented their receipts for withdrawals. In the case of money, particularly, this practice would prove a lucrative business to the custodian. To thus make use of other people's money, without their knowledge and against their wish, was a plain fraud. But as long as the custodian was a prudent business man and successful in his undertaking, he would not only be able to satisfy all claims and thus avoid prosecution for fraud, but he would be building a fortune for himself as well.

Any successful business has the tendency of expanding and of drawing others into it. One can readily understand how under such circumstances the fee for the safe-keeping of money would be reduced through competition, until finally the practice of paying *interest* on deposits would come into use, even before the goldsmith's shop had been transformed into the bank. On the other hand it

can readily be understood that there would be cases where the goldsmith or other custodian would squander them outright, or make such unwise investments of them that they would be lost and his fraud discovered. The modern banknote of today bears the imprint in various degrees of clarity, the experience of this pre-banking era. Thus the need for having something of value—actual money—back of the paper notes, has been proven time and time again, although evidence of other wealth estimated in money, such as commercial paper, has proven suitable for part backing.

In relation to deposits, it has again been proven that it is unnecessary to store all the money deposited, that a reserve sufficient to take care of ordinary withdrawals is suitable for all practical purposes. The exact amount of such reserves, however, has been subject to the hottest debates. In normal times when deposits exceed withdrawals, the reserves seem to be wholly unnecessary. In periods of panics, when there are few deposits and many withdrawals, the reserves are never adequate.

In a little book called *Money and the Mechanism of Exchange*, written in 1896 by W. Stanley Jevons of Manchester England, attention is called to fourteen different kinds of paper currency, ranging all the way from "the simple deposit method" to "the paper money method." The first of these simply means a convertible paper issue, with gold corresponding in amount, held in readiness, so that any or all holders of the paper notes might have them changed for gold coins. No economy is accomplished by this method except preventing the wear and tear of the precious metals by keeping them out of circulation. This